

Comparing the Financial Position of the Aged in Britain and the United States

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Providing a basic minimum income to retired aged persons is a problem that grows in size as the proportion of the elderly among the population in general increases. A comparison of the financial position of the aged in Britain and the United States shows some striking similarities. The differences, where they do occur, are particularly illuminating with respect to certain problems of social policy.

UNIQUE DATA FOR a comparison of the financial position of the aged in Britain and in the United States is provided by a cross-national survey of the elderly population in each of the countries.¹ Basically the same method was used to collect data in both countries. Questionnaires were designed to be comparable, and a similar sample design was used. In the United States, since the period of the field work followed closely the filing of income-tax returns, respondents were asked for details of a year's income. In Britain, where the majority of the aged do not have incomes at taxable levels, respondents were asked for information about the last week's income or its equivalent.

In both the United States and Britain other studies of a comparable nature have broadly confirmed the findings of the cross-national survey. The results from the Department of Health, Education, and Welfare study² were very close to

those of the cross-national survey for the United States. In Britain, the author's own study of 1959-60 and the subsequent 1965 study of the Ministry of Pensions and National Insurance (which includes only those receiving retirement pensions) were both consistent with the cross-national findings.³ It appears, therefore, that the results of the cross-national survey are quite reliable.

BACKGROUND

In order to evaluate the results of the cross-national survey it is important to be aware of several important background features. One item to take into account is that the gross national product per capita in the United States is very roughly twice the level of that in the United Kingdom in real terms (using purchasing power equivalent exchange rates with European weights).

Also significant are some basic differences in the social security systems themselves. Aside from differences of financing, not considered here, one important factor is that Britain has had more complete social security coverage than the United States since 1948. Despite the United States' very rapid increase in coverage during recent years, only 78 percent of its population over retirement age were eligible for benefits in 1962 compared with 90 percent in Britain.

Another important aspect of the British pension system is that it is still basically flat rate. A measure of wage-related benefits was introduced in 1959, but this was minimal. A man paying graduated contributions on the maximum taxable income (now £18 a week) throughout his

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¹ See Ethel Shannas, Peter Townsend, Dorothy Wedderburn, Henning Friis, Poul Milhoj, and Jan Stehouwer, *Old People in Three Industrial Societies*, Atherton Press, New York, 1968.

² Lenore A. Epstein and Janet H. Murray, *The Aged Population of the United States: The 1963 Social Security Survey of the Aged* (Research Report No. 19), Social Security Administration, 1967.

³ See Dorothy Cole (with John Utting), *The Economic Circumstances of Old People*, The Codicote Press, Welwyn, Hertfordshire, 1962; and the Ministry of Pensions and National Insurance, *Financial and Other Circumstances of Retirement Pensioners*, Her Majesty's Stationery Office, London, 1966.

working life would, after 40 years, earn increments that would less than double the flat-rate pension. At the time of the survey field work these increments were quite insignificant. Even in 1966 the increments earned that came into payment that year averaged only 2s.7d. a week, and the maximum amount awarded was 7s.6d. a week. Since increments were not increased along with the flat-rate pension, their significance will be even smaller if the flat-rate pension increases in the future without increases in the earnings-related benefits.

In the United States, the wage-related basis of the social security system makes for a range of pension levels. In 1962, at the time of the field work, the maximum was more than three times the minimum—\$127 maximum and \$40 minimum for a single worker and \$190 maximum and \$60 minimum for a retired worker with a dependent wife, both receiving full-rate benefits.

Another major difference in the social security systems of the two countries is that Britain supplements the income of pensioners (and others) where their total resources are less than "needs" as defined. This supplementation was called national assistance up to November 1966 and is now known as "supplementary benefit." A basic scale rate for needs is determined, and rent is usually paid in addition. The scale rate is ordinarily set at the same level as the retirement pension, so that retirement pensioners with no other sources of income almost automatically become entitled to assistance with at least their housing costs. Throughout the entire postwar period, 20–25 percent of retirement pensioners have received supplementation. (It might be added that in 1966 there were certain relaxations in the determination of "resources," and a special long-term supplement of 9 shillings a week was added to the basic national assistance/supplementary benefit rate. Now some 30 percent of retirement pensioners are receiving supplementation.) In theory, then, the scale rate plus rent under national assistance should have supplied a basic minimum income in Britain. In the United States, public assistance is available to the aged on a State basis, with both benefit and income test varying from State to State. In 1962, 13 percent of persons aged 65 and over in the United States were receiving old-age assistance payments.

Considering the differences in the overall stand-

ards of living, it can be said that the retirement pensions in the two countries were relatively comparable. In 1962, the average OASDI benefit in payment to a couple in the United States was 29 percent of the median total money income of male operatives who were year-round, full-time workers. The British full retirement pension for a couple was also 29 percent of average earnings in manufacturing industry. Compared with GNP per head in the labor force, the OASDI benefit was 21 percent and the retirement pension in Britain was 22 percent. Compared with GNP per capita in the total population, the relevant percentages are 52 percent for the United States and 46 percent for Britain, chiefly because there were relatively more young dependents in the population of the United States.

In considering the background data, the difference between the two countries in providing welfare services for the aged must be included. The most important variant is medical care. By 1962 the medical assistance program to aid the needy aged with medical bills was in operation in the United States. But in Britain, medical care is available free of charge to everyone.

Differences in the living arrangements of the aged must also be borne in mind in any comparison. Although one of the most interesting of the cross-national findings was the similarity in proximity and frequency of contact between the aged and their children in the two countries, there was one important difference. In the United States only 20 percent of persons aged 65 and over who have surviving children actually keep house with them. In Britain the rate is 42 percent. Among the possible reasons for such differences may be objective factors such as the housing situation. In an earlier study, for example, the author found that both the proportion of aged parents living with children and the housing shortage varied considerably from area to area. The difference in the proportion of aged parents living with children may also be a function of general standards of living of both old and young. It is not likely, however, to be a straightforward function of the relative poverty of the aged in Britain. Here again, data from the author's earlier study suggests that the majority of the aged in Britain have always lived with relatives and that it is not therefore a case of doubling up when income drops in old age.

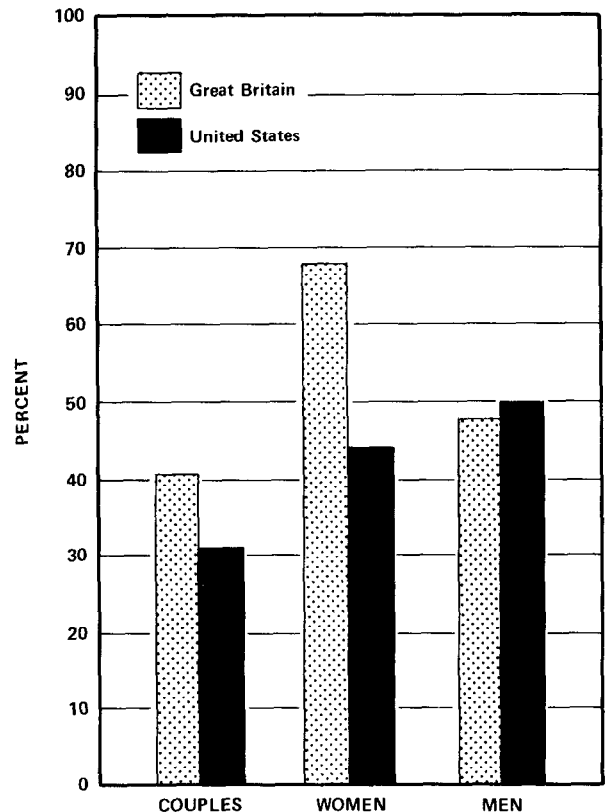
ROLE OF GOVERNMENT AND INCOME OF AGED

Surveys before the cross-national have shown that in both countries, government sources supply less than half the aggregate income of the aged: in the United States the rate was shown to be 45 percent and in Britain, 39 percent. There is an important difference of definition here, however. The United States figures include public employee and railroad pensions, but the British figures do not. Earnings are the next most important income source. In the United States, they contribute almost a third and in Britain a quarter of aggregate money income of the aged. Rent, dividends, and interest contribute 15 percent in the United States and 20 percent in Britain. Pensions from previous employment make up 3 percent in the United States and 12 percent in Britain (subject to the important difference of definitions referred to above).

To say, however, that government sources supply less than half of aggregate income may be misleading if one is trying to assess the importance of government benefits. The cross-national study measured the dependence of the income units upon government benefits in terms of the percentage of total money income received from government sources (and here government income was defined consistently to exclude public employee pensions). Incidentally, it is important to retain the term "income unit" to distinguish between women and couples. There were important differences in their financial circumstances and their relative weights varied between the two countries. In the United States, 43 percent of the aged population were couples, 13 percent were men, and 44 percent women. In Britain 35 percent were couples, 16 percent were men, and 49 percent were women.

First of all, it should be noted that more elderly income units in the United States than in Britain received no government benefits—20 percent of the women in the United States, for example, compared with only 5 percent in Britain. But at the other end of the scale, those who received nothing but government benefits make up roughly 20 percent of the aged couples in both countries; in the United States, the percentage for men was 43 and for women, 39. In Britain, the percentage for men was 33 and for women, 53. Sizable proportions in both countries received at least three-

Proportion of aged with at least 75 percent of income from government benefits in Britain and in the United States



fourths of their income from government benefits, as the accompanying chart shows.

In other words, major dependence upon government benefits is greater in Britain than in the United States, but even in the United States there is a very high proportion of the aged whose income level is largely determined by what is happening to OASDI and assistance levels.

Perhaps the biggest difference between the sources of income in the two countries is in the area of employment income. This difference reflects the fact that the elderly are more likely to go on working in the United States than they are in Britain after reaching the age at which government benefits are available. About 66 percent of the couples in the United States and 71 percent of the British couples were retired. The pensionable age is the same for men in both countries, although the United States provides actuarially reduced pensions from age 62. Both countries have an earnings rule in operation (up to age

72 in the United States and age 70 in Britain).

The differences in employment of the aged in the two countries are probably due partly to the greater incidence of self-employment in the United States, both agricultural and white-collar. Indeed, it seems likely that in 1962 the proportion of aged blue-collar workers continuing in employment was higher in Britain than in the United States.⁴ The cross-national study suggests, as others have, that more of the self-employed continue to work past retirement age.

Property income supplies a higher percentage of the aggregate income of the aged in Britain than in the United States but is rather more widely received in the United States. This fact ties in with the findings about assets. More of the elderly in the United States reported ownership of assets, particularly income-producing real estate, stocks, and shares—a result that agrees with other studies of general asset ownership in the two countries. It is interesting to note that the elderly in Britain appeared more ready to use their assets and, when they did, to use them for items such as clothing, holidays, rates, and taxes, in addition to general living expenses. In the United States, 40–50 percent used their assets to meet medical expenses.

The difference in the relative importance of occupational pensions in the supply of aggregate money income is partly a definitional problem, as noted before. But when identical definitions were used in the cross-national study, it was found that nearly twice as many of the elderly in Britain were receiving such pensions as in the United States. To some extent this may be due to the greater weight of public employment in Britain than in the United States, since pensions are universal in the public sector. But there has also been an extremely rapid expansion recently in the coverage of such occupational pension plans in Britain. Coverage in 1963 was 11.1 million compared with 4.3 million in 1956. The number receiving pensions was 1.8 million in 1963 and 1.1 million in 1956.

The fact that the elderly have other income

sources in addition to government retirement pensions means, of course, that the median incomes of the elderly are above corresponding benefit levels. Median income of couples was 83 percent above benefit levels in the United States and 60 percent above in Britain (or, if retired couples only are considered, median income was 60 percent above benefit levels in the United States and 44 percent above in Britain). Incomes of women were 24 percent and 29 percent, respectively, above benefit levels. Median total money incomes of the aged in both countries were, however, well below average earnings. For retired couples, median total money income was 45 percent of average earnings in the United States and 42 percent in Britain. For women it was 18 percent in the United States and it was 23 percent in Britain.

There are many difficulties in finding suitable standards of comparison by which to judge the income of the elderly, and there are also many arguments against using average earnings. The British material was examined⁵ by itself to compare the survey results with income-tax data available for households of different compositions. Single men and women below retirement age were shown to have income after tax almost twice the amount of those who were aged 65 and over. For couples without children, income after tax varied from two-thirds above the income of the aged when wives did not work to two and a half times as high as that of the aged when wives did work. There are of course arguments against these comparisons as well, but they do give some indication of the position of the elderly in relation to other sections of the population.

This gap between the levels of income of the aged and the rest of the population was already well known, however. The cross-national survey served to provide yet more evidence, and it illustrated in perhaps a new way the degree of inequality among the aged. The relative poverty of the women was particularly striking and re-emerged when we considered what proportion of the aged were below some sort of poverty standards. When these calculations were made, the SSA poverty index had not been devised, but

⁴ There has, however, been a continuing downward trend in labor-force participation in Britain. In 1953, 40 percent of the men were taking their retirement pensions at minimum pensionable age. In 1966, it appears that 60 percent were doing so. Taking the pension does not necessarily mean retirement, but it does so in the great majority of cases.

⁵ See Peter Townsend and Dorothy Wedderburn, *The Aged in the Welfare State*, G. Bell and Sons, Ltd., London, 1965.

poverty levels suggested by the Social Security Administration were used—\$1,800 for a couple and \$1,300 for a single person (this level compared with the nonfarm levels, used later in the poverty index, of \$1,470 for a single person aged 65 or over and \$1,850 for a couple with head aged 65 or over). For the British level the national assistance scale rate plus rent allowance (1962)—£291 a year for a couple and £198 a year for a single person—was used. The standards are rather lower in relation to GNP per head in Britain than in the United States (34 percent compared with 43 percent for single persons and 55 percent compared with 60 percent for couples), but they are sufficiently close to indicate comparable poverty standards. On this basis, 30 percent of the couples and 60 percent of the women were below the level in the United States, and 23 percent of the couples and 50 percent of the women fell below the level in Britain.⁶ Thus in both countries a very large percentage of women have “inadequate” incomes, and it may be that there are relatively more poor among the aged in the United States.

There were also very marked overall differences in the total income distribution for the different types of income units between the two countries. In Britain, all were bunched much more closely around the median than were their counterparts in the United States, where the extremes predominated. Concentration ratios were also calculated, and these confirmed the impression that the incomes of the aged were more equally distributed in Britain than in the United States. In the United States, concentration ratios were 0.33 for couples and 0.34 for women; in Britain they were 0.28 for couples and 0.26 for single women.

It might be argued that degrees of inequality in the income distribution among the old is relatively uninteresting. Why bother particularly with inequality among the aged when inequality exists in other age groups as well? The position of the elderly may assume greater significance if we remember that inequality of income among the aged is greater than for other age groups in the same countries. Indeed, the degree of in-

equality increases over the age groups.⁷ Since the proportion of elderly among the population generally is increasing, anyone concerned with pursuing policies to achieve greater equality in the distribution of income might well be very concerned with achieving greater equality in old age.

The greater degree of inequality among the aged that exists in the United States is certainly due in part to the greater frequency with which the elderly are still in employment. But it may also be attributed to the operation of the social security system itself, with its greater range of benefit levels and the absence of the leveling effect of national assistance, which provides a sort of floor in Britain.

THE IMPORTANCE OF SOCIAL SECURITY

Many people in Britain today suggest that as the general income level rises, government provision of social security will become less important because people will be encouraged and have the opportunity to make their own provision for retirement through savings, insurance, and membership in occupational pension plans. The comparison of Britain with the United States is particularly interesting in this respect because we have seen the great importance of social security provision in both countries. And yet the United States has the higher real income level and, if anything, stronger ideological pressures for “self-provision” than are likely to be found in Britain. The conclusion must be that as income levels have risen, so too have standards of consumption and hence wants and needs. This means that other sources of income retain their position as supplement to government sources without diminishing the pressure for increasing the real income level received from government sources.

The dilemma is perhaps particularly well illustrated by the apparent mystery of national assistance in postwar Britain. As noted earlier, the percentage of pensioners receiving assistance has remained remarkably stable over the years and recently has even risen, despite the increase in the

⁶ In the United States, 30.9 percent of noninstitutional persons aged 65 and over were below the economy level in 1963 (Mollie Orshansky, “Who’s Who Among the Poor: A Demographic View of Poverty,” *Social Security Bulletin*, July 1965, page 27, table A).

⁷ This has recently been reconfirmed for Britain. See A. R. Prest and T. Stark, *Manchester School*, vol. 35, No. 3, 1967.

proportion of the elderly with occupational pensions. The Ministry of Pensions' own survey shows that 58 percent of male pensioners aged 65-69 were receiving occupational pensions, but only 48 percent of those aged 70-74 received them. It is necessary, however, to bear in mind several points concerning the employers' pensions in Britain.

The amounts received from these pensions are, for most persons, small. The median amount received by men in 1965 was only just over £130 a year. The basic calculation of resources for national assistance purposes ignored £39 a year of any such payments (this has been increased since November 1966 to £52). The fact that such pensions are small means that small increases in the standard allowed either for benefit or assistance can rapidly surpass any additional income from this source. Furthermore, widows have been increasing as a proportion of the elderly, and they have relatively low entitlement to such pensions (only 11 percent in 1965).

The percentage of British pensioners receiving assistance has also remained stable despite an increase in real terms of the retirement pension of some 77 percent in the period 1948-67, compared with an increase of some 50 percent in average earnings over the same period. But the increases that occurred periodically in the amounts of the retirement pension have never been of sufficient magnitude to enable the government to seriously consider forgoing an accompanying increase in national assistance. At times the assistance rate has been increased a little less than the pension. This type of change occurred recently, with the result that persons already on assistance have received a lower absolute and relative increase in income other than retirement pensions. Not only does such a change cause ill feeling, but it is illogical if the increase is designed to benefit those at the bottom of the income distribution. Only by an increase in social security benefits of a fairly large magnitude can the role of assistance or supplementary benefit be reduced.

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